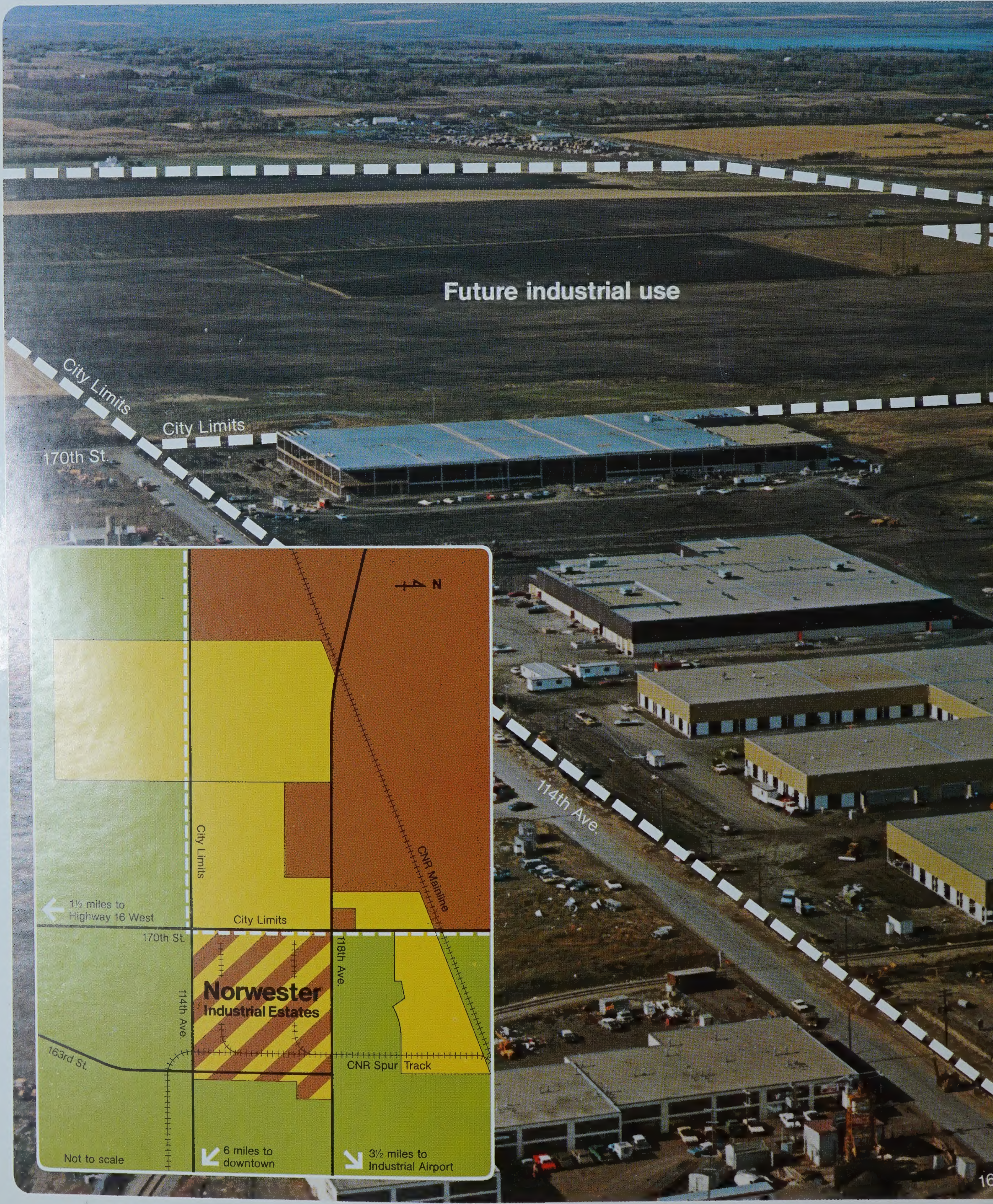
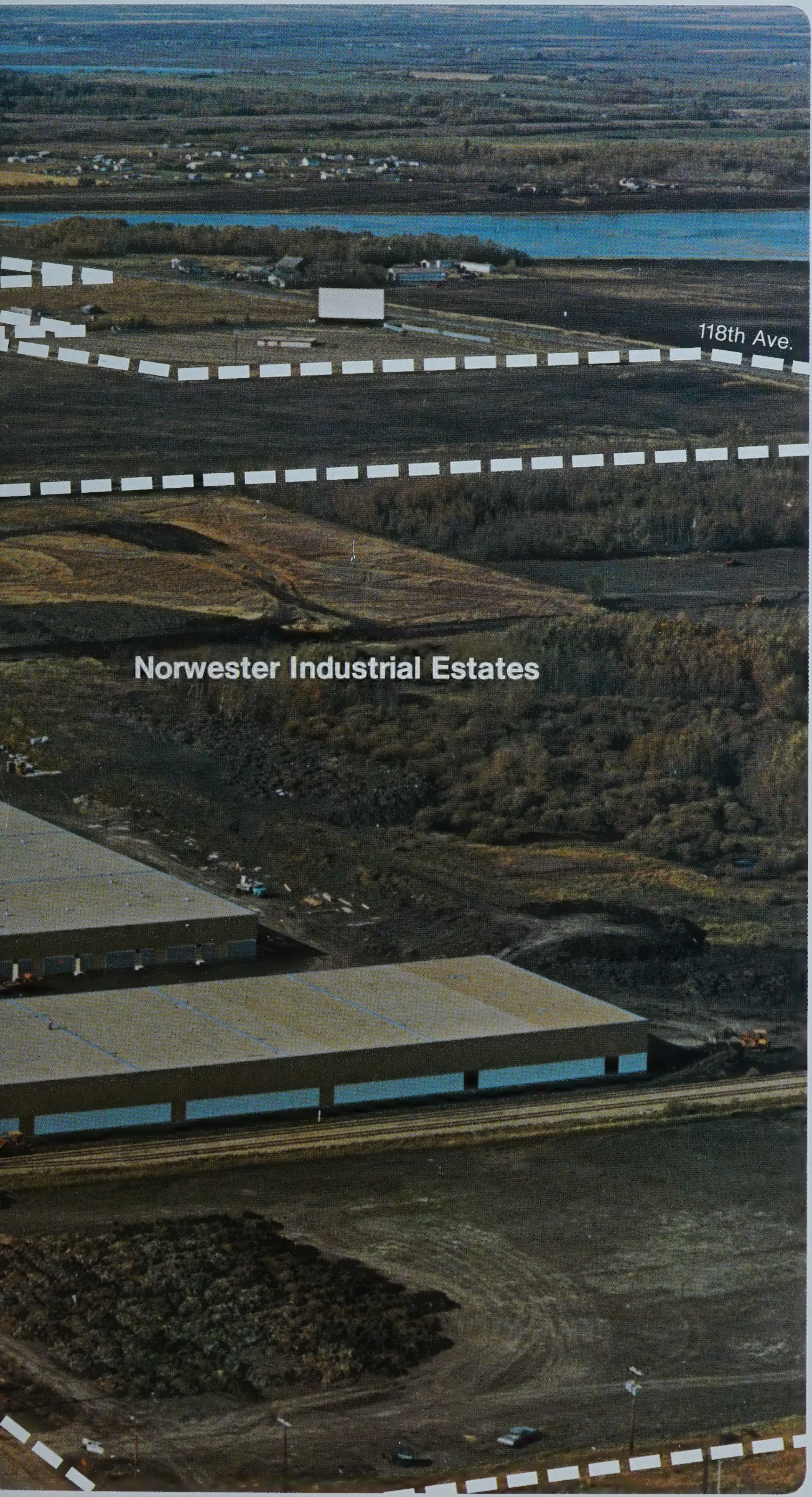
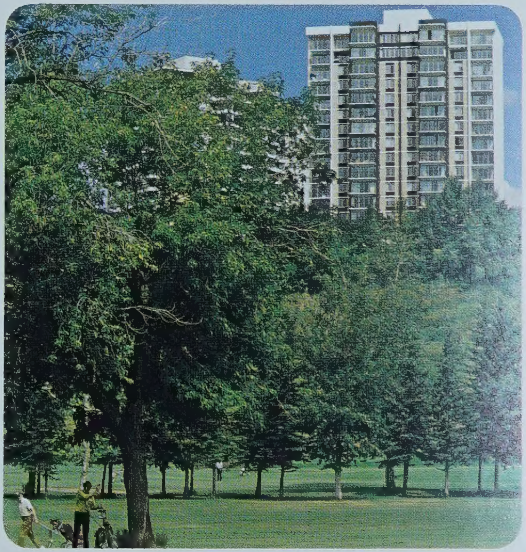
DAON 1974

ANNUAL REPORT • DAON DEVELOPMENT CORPORATION



Future industrial use
City Limits
City Limits
170th St.
114th Ave.
N
City Limits
CNR Mainline
1½ miles to
Highway 16 West
City Limits
170th St.
118th Ave.
114th Ave.
Norwester
Industrial Estates
163rd St.
CNR Spur Track
Not to scale
6 miles to
downtown
3½ miles to
Industrial Airport

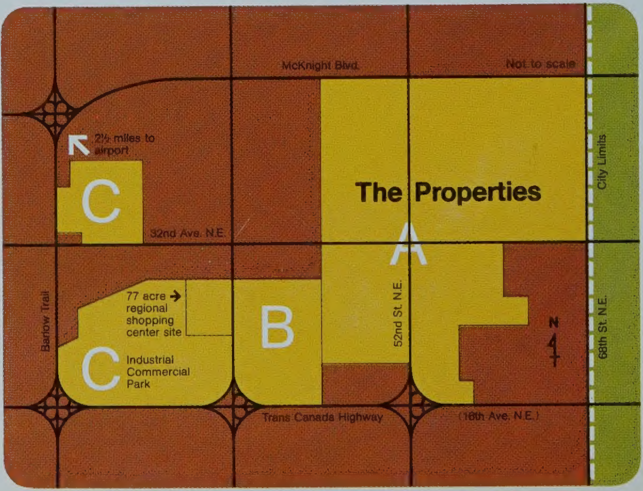




Daon now owns 994 residential units in Edmonton and Calgary. Each building is presently rented and may be offered for sale as self-owned units.

Norwester Industrial Estates is a 170 acre parcel of land within the City of Edmonton and is serviced by the City. Daon's plan is to sell serviced sites or erect buildings and lease them. The first four buildings have been completed. Adjacent to Norwester Industrial Estates, Daon owns 518 acres which are intended for future industrial use (see yellow area on map).

A The Properties is a residential development within the City of Calgary. 805 serviced lots were sold in 1974 bringing the total to 1,481 lots in two years. During 1975, 1976 and 1977, an estimated 1,200 lots will be produced each year. The proposed commercial developments are likely to be retained by Daon.
B Adjacent to the original holdings in The Properties, Daon now has a 50% joint interest in 240 acres of residential land.
C At the Trans-Canada Highway and Barlow Trail, Daon now has 426 acres of land which will accommodate 5,000,000 square feet of industrial warehousing, retail and commercial space. Included in this is a 77 acre regional shopping centre site. This land will be developed between 1975 and 1980.



Front cover

The Daon Building in the business core of Calgary. 170,000 square feet, completely leased.

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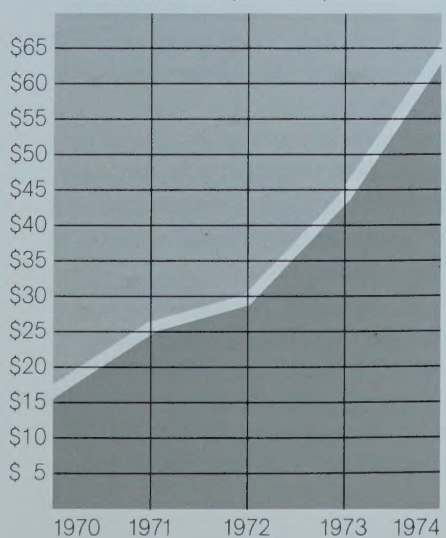
5 year financial highlights

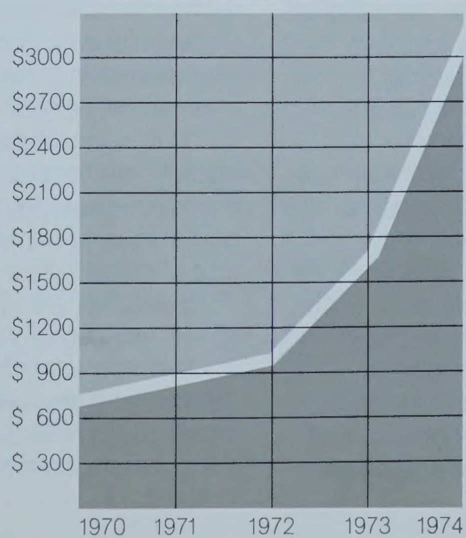
	1974	1973	1972	1971	1970
Total Revenue (in $000)	**64,631**	43,616	29,912	26,116	15,417
Net Income (in $000)	**3,096**	1,666	984	856	708
Net Income per share (in $)*	**2.21**	1.32	0.90	0.86	0.71
Cash Flow per share (in $)*	**5.06**	2.87	1.87	1.82	1.55
Total Assets (in $000)	**184,643**	85,425	53,051	35,852	25,355
Shareholders' Equity (in $000)	**12,984**	8,476	6,545	4,037	3,180
Number of Shareholders at year end	**1,213**	1,128	1,097	718	704
Number of shares outstanding	**1,499,190**	1,277,380	1,204,360	1,000,200	1,000,200

**Based on average number of shares outstanding during the year.*

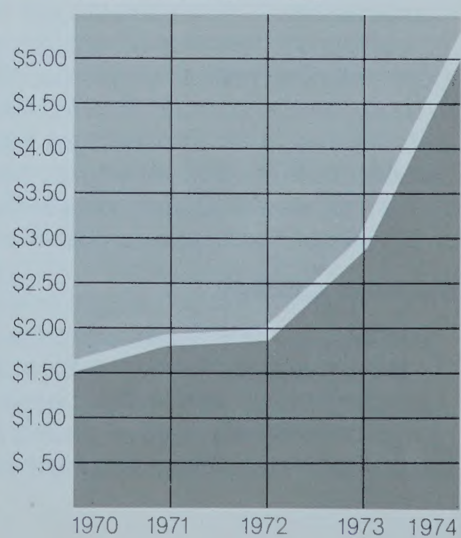
Total Revenue ($ million)



Net Income ($000)



Cash Flow Per Share



President's report

1974 was a year of contradictions for Daon. While the rate of economic growth in Canada was declining, Daon had record earnings, ahead by 86% from the previous year. While the nation's money supply tightened dramatically, our capital and liquidity were greatly strengthened. At a time when Canada has entered a period of recession, we have had, by any yardstick, the best year in the company's 10 year history. I believe this is due largely to the ability of our management team, without doubt our most important asset, to anticipate and quickly adjust to changing market conditions and to produce the required product at the right time.

The company achieved record sales with total revenue up 48% from the previous year; at the same time we increased our investment in income properties by $53 million. The two Daon office buildings, in Vancouver and Calgary, were both substantially leased. We opened and fully leased our first shopping centre, the Langley Mall. The first tower of the large North Vancouver apartment complex, Woodcroft Place, was completed and fully rented, while the second building is within weeks of completion and is substantially rented.

During the year, the company changed its capital structure significantly. Series C Debentures totalling $10 million were issued in the Spring, and later the $4.2 million Series A Debentures were recalled, resulting in some conversion into shares of $1,482,000 and the retirement of the remaining debt. Through the retirement of this debt the potential dilution of an additional 326,160 shares or 22% of the existing outstanding shares was averted. Shareholders' equity, through retention of earnings and debt conversion, increased from $8,476,000 to $12,984,000.

In order to place a true value on the net worth of a real estate company, it is necessary to consider market values. In management's opinion, the value of the company's consolidated property holdings in today's market exceeds book value by some $21,000,000 ($17,000,000 in 1973). On this basis, a realistic value of the shareholders' equity at October 31, 1974, after allowing for income taxes on the excess, would be approximately $23,500,000, or $15.00 per share break-up value.

Business strategy

The company holds assets which are strategic to the development of the two Western Provinces, particularly Alberta, where 45% of our assets are now located. We have acquired and developed some very important income properties, and have assembled several major land holdings. We focus on three activities — land development... a source of cash; housing units for resale... a source of cash; income properties for retention... a place to invest our cash and also a means of sheltering other cash from current income taxes.

No activity is planned outside the provinces of British Columbia and Alberta. Nor will we engage in activities outside the business of real estate. Total annual value of real estate development in Vancouver, Calgary and Edmonton exceeds $3 billion. Housing alone approaches $2 billion. Our share of these markets in 1974 was less than 3%. It follows that Daon has considerable room to grow and increase its market share.

Business outlook

Family formation in and immigration to Alberta and British Columbia have placed considerable pressure on an inadequate stock of existing housing. At the same time, high interest rates and tight money exclude many people from the house buying market. Instead, they turn to the rental market and, as a result, this sector has strengthened considerably. Daon currently has 2,000 apartment units and townhouses, in addition to 200 completed condominium units for resale which have been rented out on a short-term basis until the mortgage market improves. Most buildings are fully rented and the remainder have few vacancies. Based on replacement costs rental rates are by no means adequate; however, the strong demand is resulting in a correction in rental levels, and cash flow from these buildings will show a steady improvement.

In addition to units already rented, the company is building approximately 1,000 condominium apartments and townhouses for resale due to be completed in 1975. Should inadequate mortgage terms continue, and the market be unable to absorb these units as quickly as they are completed, a portion of this inventory will also be rented out until market conditions improve.

The same population pressures that create housing demand also create a market for commercial real estate... office buildings, warehouses and shopping centres. Daon owns 600,000 square feet of office space, 10% of which is unleased and in 1975 a further 200,000 square feet will be brought to market. Over 2 million square feet of office space is absorbed annually in the three cities where we operate and the long term opportunity for new space looks strong. The current recessionary attitude in the business community will act to soften near term

demand for office space but this softening will be of short duration. The high cost of money and the tremendous increases in construction costs will force a significant upward adjustment in rental rates; new buildings in Vancouver completed in 1975 will command rents approaching $10 per square foot.

Daon owns 200,000 square feet of shopping centre space—fully leased; 100,000 square feet of retail space will be brought to market in late 1975. Plans are being formulated to develop a Regional Shopping Centre on our 77 acre site in North East Calgary. Market studies indicate a centre of 600,000 to 1,000,000 square feet with three major department stores as anchor tenants. Target date for opening is the Spring of 1978. This will be our largest single project to date and we have, since October 31, 1974, commenced negotiations with another major developer to form a 50/50 partnership to jointly develop the Centre.

The company owns 200,000 square feet of industrial warehouse space, fully leased, and in early 1975 a further 400,000 square feet will be brought to market in Edmonton and Vancouver. The demand for this space is weaker than it was twelve months ago and we expect a fairly lengthy leasing period; however, the space should be absorbed by the end of 1975.

The demand for building lots in Vancouver is decidedly weak, the vacant and unsold inventory of detached single family houses for sale is at record high levels and new home construction has virtually ceased. Daon has no serviced lots for sale in Vancouver and until the mortgage climate improves we will stay out of this market. A portion of our land inventory has been offered to the British Columbia Government in support of its rental housing program and in December we sold to the Government a large tract of land assembled in 1974.

In Alberta, the situation is quite different. While housing starts are down, our major land assembly "The Properties" has enjoyed exceptional market acceptance and is recognized by Calgary home builders as the fastest selling area in the city. We expect to market 1,000 lots in Calgary in 1975 and we are in a position to produce in exact accordance with the demand.

Government

Governments have singled out our industry for special treatment. The British Columbia Government has done a great disservice to tenants and landlords alike by imposing rent controls and, even though new buildings are exempted for a period of five years, their move into this field has thrown a cloud over rental apartments as an investment.

On the other hand, the Federal Government budget of November 18, 1974, contained a welcome relief for the housing sector, the most significant measure being return of tax shelter to apartments. Apartment investment now becomes a more interesting vehicle for high income taxpayers.

The apartment investor in British Columbia now has three basic factors to consider.

1. The distortion in the free rental market as a result of provincial rent controls ... definitely a negative factor.
2. The re-introduction of capital cost allowance (tax shelter) to owners of new apartments ... a decidedly positive measure.
3. A very tight supply of apartments, almost zero vacancy in the fastest growing province in Canada ... positive!

On balance, investment in apartments for rent should be extremely attractive to certain investors, large and small. The development of apartments and townhouses for sale to this type of investor is being studied very carefully by management, and this could be an important profit centre for Daon in 1975.

The November 18 budget also contained a most unwelcome measure. Carrying costs of land held for development are no longer deductible from current income for tax purposes. This was an inconsistent move on the part of the Government and comes at a time when the entire industry is in a liquidity crisis and trying hard to finance inflation. The Minister of Finance believes that developers are withholding lots from the market whereas even a superficial examination would show this is simply not the case. Municipalities are withholding lots from the market, developers are not. The Minister went after the wrong "culprit" and as usual the homebuyer will pay the price. Capital that was formerly derived from deferred taxes will now have to be borrowed and the cost of this capital will be added to the cost of the finished product.

The strong anti-development bias of our city and municipal councils continues to be the number one problem restricting the supply of housing. The municipalities of Greater Vancouver set the worst example as they impose development standards far beyond market needs. Excessive parking requirements, inadequate densities and just plain red tape conspire to render housing beyond the reach of many young working people. There is little likelihood of a change in attitude unless the Federal and Provincial Governments seek out a

means of chanelling more funds to our cities. Property taxes alone can no longer finance the price of urbanization and our elected councils will defend their constituents the only way they know how—by resisting growth.

Financial

This year we have attempted to provide fuller disclosure of information in the consolidated financial statements. The notes have been considerably expanded and the statements themselves have been presented in a new "cleaner" format. The consolidated balance sheet presents a clear picture of the company's worth in conventional form; however, I would like to present an alternative and simplified view of how the company's financial resources were employed at October 31, 1974.

The effective long-term capital employed in the business at that date (other than mortgage debt attaching to specific properties) was $32,909,000, consisting of:

Paid-in share capital	$ 4,828,000
Retained earnings	8,156,000
Deferred income taxes	8,695,000
Debentures payable	11,230,000
	$32,909,000

This capital was employed as follows:

Equity in housing units for resale	11,671,000
Equity in land	4,393,000
Equity in income properties	20,320,000
	36,384,000
Less short-term debt, net of other assets	3,475,000
	$32,909,000

Liquidity

Earlier comments referred to the exceptional transformation in 1974 in the financial and economic environment in which we operate. While the high cost and limited availability of credit have eased from their peaks, the economy will continue to be slow until late 1975. These conditions have caused management to adopt a more conservative posture and concentrate more heavily on cash management. Certain properties not considered strategic to our long-term goals have been converted to cash and on one of our long-term land assemblies we have, since October 31, 1974, agreed to enter into a joint venture with another company whereby our partner will provide the working capital to service 100% of carrying costs. Our treasury is now in an increasingly liquid position and we are ready to respond to what we believe will be some outstanding opportunities in the year ahead. We will be operating well below the limits of our authorized lines of bank credit during the next several months.

Paragon Properties Limited

In last year's Annual Report, it was stated that the company had agreed to acquire 51% of the outstanding shares of Paragon Properties Limited, of Calgary, and had acquired by option a further 29% of the shares. Since that time, we have completed the purchase of the 51%, exercised our option with respect to the aforementioned 29%, and also acquired the remaining 20% of the shares which were publicly-held. Paragon Properties Limited is now a wholly-owned subsidiary of Daon and the operations of the two companies have been merged.

The rental markets in Calgary and Edmonton, where all the Paragon assets are located, have improved significantly since the purchase, and the school portion of property taxes has been removed. These factors have already increased the value of the former Paragon assets.

1975

In 1975 we face perhaps the toughest challenge to date. Present economic and financial conditions are causing difficult times for the real estate industry. We are not immune to these conditions but we are prepared for them.

It is fashionable these days to speak of business problems, cut-backs in production, material shortages and the fear of recession. In spite of the cries of doom in some quarters, we remain optimistic that the Canadian economy will begin to turn upward in late 1975. Daon is in business to provide one of the basic commodities that is in ever-increasing demand ...shelter. Moreover, we pursue this business in the three fastest growing cities in Canada—Vancouver, Calgary and Edmonton. The year 1975, despite the state of the economy, will be more than a satisfactory year for Daon, and we are preparing for a very strong resurgence in 1976 and beyond. Consistent with our optimism, the Directors, on December 16, 1974, raised the quarterly dividend from 5¢ per share to 8¢ per share commencing in January, 1975.

On behalf of the Board.
J. W. Poole,
President.

Financial statements

AUDITORS' REPORT

To the Shareholders,
Daon Development Corporation:

We have examined the consolidated balance sheet of DAON DEVELOPMENT CORPORATION (a British Columbia company) AND SUBSIDIARIES as of October 31, 1974, and the related consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of a consolidated subsidiary, which statements reflect total assets and revenues constituting 6% and 9%, respectively, of the related consolidated totals. These statements were examined by other auditors whose report thereon has been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for such subsidiary, is based solely upon the report of the other auditors. We have previously examined and reported on the consolidated financial statements for the preceding year.

In our opinion, based upon our examination and the report of other auditors referred to above, the accompanying consolidated financial statements present fairly the financial position of Daon Development Corporation and Subsidiaries as of October 31, 1974, and the results of their operations and changes in their financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR ANDERSEN & CO.
Chartered Accountants

Vancouver, Canada.
December 13, 1974.

Consolidated balance sheet

October 31, 1974
(with comparative figures for 1973)

ASSETS	**1974**	**1973**
CASH	$ 347,000	$ 342,000
ACCOUNTS RECEIVABLE *(Note 3)*	8,357,000	10,435,000
MORTGAGES AND AGREEMENTS RECEIVABLE *(Note 4)*	4,241,000	5,503,000
HOUSING UNITS *(Note 5)*	34,970,000	15,380,000
LAND *(Note 6)*	51,687,000	19,062,000
INVESTMENTS *(Note 7)*	1,629,000	6,693,000
INCOME PROPERTIES *(Note 8)*	80,890,000	27,392,000
OTHER ASSETS *(Note 9)*	2,522,000	618,000
	$184,643,000	$85,425,000

On behalf of the Board:

GRAHAM R. DAWSON, *Director.*

JOHN W. POOLE, *Director.*

The accompanying notes to consolidated financial statements are an integral part of this statement.

	1974	1973
LIABILITIES		
BANK LOANS *(Note 10)*	$ 3,083,000	[illegible]
ACCOUNTS PAYABLE *(Note 11)*	17,488,000	[illegible]
MORTGAGES AND AGREEMENTS PAYABLE *(Note 12)*	131,163,000	[illegible]
DEBENTURES PAYABLE *(Note 13)*	11,230,000	[illegible]
DEFERRED INCOME TAXES	8,695,000	[illegible]
	171,659,000	[illegible]
CONTINGENT LIABILITIES AND COMMITMENTS *(Note 14)*		
SHAREHOLDERS' EQUITY *(Notes 13 and 15):*		
CAPITAL STOCK	4,828,000	[illegible]
RETAINED EARNINGS	8,156,000	[illegible]
	12,984,000	[illegible]
	$184,643,000	[illegible]

Consolidated statement of income

For the year ended October 31, 1974
(with comparative figures for 1973)

	1974	**1973**
REVENUE:		
Real estate sales *(Note 16)*	$58,970,000	$40.985,000
Rental	3,817,000	1.364.000
Other	1,844,000	[illegible]
Total revenue	64,631,000	43,616,000
EXPENSES:		
Cost of real estate sales *(Note 16)*	49,295,000	35.402.000
Rental operating costs	2,257,000	1.051.000
General and administrative	2,291,000	1.135.000
Interest *(Note 17)*	2,761,000	1.047.000
Depreciation and amortization	294,000	182.000
Other	1,063,000	1.396.000
Total expenses	57,961,000	[illegible] 13,000
INCOME BEFORE INCOME TAXES	6,670,000	3.403.000
PROVISION FOR INCOME TAXES	3,574,000	1,737,000
NET INCOME	$ 3,096,000	S 1.666.000
EARNINGS PER SHARE *(Note 18)*:		
Basic	$2.21	[illegible]
Fully diluted	$2.01	[illegible]

Consolidated statement of retained earnings

For the year ended October 31, 1974
(with comparative figures for 1973)

	1974	**1973**
BALANCE, BEGINNING OF YEAR	$ 5,345,000	S 3.870.000
ADD—Net income	3,096,000	1.666.000
	8,441,000	5.536.000
DEDUCT—Cash dividends, 20¢ per share (1973—15¢ per share)	285,000	191.000
BALANCE, END OF YEAR	$ 8,156,000	S 5.345.000

The accompanying notes to consolidated financial statements are an integral part of this statement.

Consolidated statement of changes in financial position

For the year ended October 31, 1974
(with comparative figures for 1973)

	1974	**1973**
CASH WAS PROVIDED FROM:		
Operations—		
Net income	$ 3,096,000	$ 1,666,000
Add—Expenses not requiring an outlay of cash—		
Deferred income taxes	3,574,000	1,737,000
Depreciation	278,000	166,000
Amortization of deferred charges	153,000	26,000
Equity in loss of affiliate		25,000
Cash flow from operations	7,101,000	3,620,000
Mortgages and agreements for sale payable	66,861,000	25,587,000
Recovery of real estate costs through sales *(Note 16)*	49,295,000	35,402,000
Proceeds of Series C debenture issue *(Note 13)*	9,575,000	
Decrease (increase) in investments	6,142,000	(4,847,000)
Decrease (increase) in accounts, mortgages and agreements receivable	5,597,000	[illegible]
Increase in accounts payable	2,862,000	5,404,000
Increase (decrease) in bank loans	824,000	(934,000)
Common stock issued (less conversions from debentures of $1,423,000 in 1974), *(Note 15)*	274,000	455,000
	148,531,000	[illegible]
CASH WAS APPLIED TO:		
Housing units	38,250,000	25,662,000
Land	41,928,000	16,824,000
Income properties	59,798,000	[illegible]
Purchase of shares of Paragon Properties Limited *(Note 2)*	3,675,000	
Increase in other assets	1,737,000	142,000
Purchase and redemption of debentures *(Note 13)*	2,853,000	
Dividends	285,000	191,000
	148,526,000	61,871,000
INCREASE IN CASH	$ 5,000	$ [illegible]
CASH FLOW PER SHARE *(Note 18)*	$5.06	[illegible]

The accompanying notes to consolidated financial statements are an integral part of this statement.

Notes to consolidated financial statements

October 31, 1974

1. Accounting policies

(a) Consolidation

The consolidated financial statements include:

(i) The accounts of the Company and its wholly-owned subsidiaries other than Harbour Park Developments Ltd. *(Note 7).*

(ii) The Company's proportionate share of revenue and expenses of certain joint ventures, with the investment therein being carried in the consolidated balance sheet on the equity basis.

The fiscal year end of the wholly-owned subsidiary, Paragon Properties Limited, is September 30. Control of this company was acquired on February 1, 1974 *(Note 2)* and, as a result, the consolidated statement of income for the current year includes earnings from this subsidiary for a period of eight months only.

(b) Income Recognition

The Company recognizes income as follows:

(i) Land Sales
When the Company has fulfilled all material conditions and a down payment, appropriate in the circumstances, has been received.

(ii) Housing Unit Sales (including condominiums)
When the sale has been completed and the purchaser is entitled to occupancy.

(iii) Sales of Income Properties
When the building is 85% complete, except for tenant improvements, and a down payment, appropriate in the circumstances, has been received.

(iv) Rental Income
After 70% occupancy is attained, subject to a reasonable maximum time period, which depends on the overall size of the project. Net rental losses prior to this time are capitalized as part of the total cost of the project.

The Company includes in cost of real estate sales a provision for warranties to purchasers.

(c) Capitalization of Costs

The Company capitalizes direct carrying costs, including interest, property taxes, and related development costs on housing units, land and income properties under development. In addition, the Company allocates interest to these assets on that portion of total costs financed by general corporate borrowings.

The Company also allocates to specific developments, the direct and indirect costs of time spent by senior management on such developments.

(d) Depreciation and Amortization

The Company records depreciation on buildings included within income producing properties using the sinking fund method. Depreciation is charged in annual amounts, increasing at the rate of 5% per annum, which will result in the cost of the buildings being fully depreciated over their estimated useful lives of between 40 and 50 years.

The Company amortizes its deferred charges relating to outstanding debentures payable on a straight-line basis over the full term to maturity.

(e) Foreign Exchange

Gains or losses on mortgage loans received and repayable in foreign currencies are recognized at the time of repayment of the debt and are either charged or credited to the cost of the property in question (if the loan relates to housing units, land or income properties under development) or reflected in consolidated income for the year.

2. Paragon Properties Limited

During the current year, the Company acquired control of all the outstanding common shares of Paragon Properties Limited at a total cost of $3,675,000, of which $1,406,000 is included within mortgages and agreements payable and the remainder has been paid in cash.

The values assigned by management to the assets and liabilities of Paragon Properties Limited at the effective date of acquisition of the shares were:

Assets—	
Accounts receivable	$ 1,186,000
Mortgages and agreements receivable	1,071,000
Housing units	1,410,000
Land	5,745,000
Investments	1,078,000
Income properties	7,994,000
Other assets	115,000
	18,599,000
Liabilities—	
Bank loans	121,000
Accounts payable	2,306,000
Mortgages and agreements payable	11,055,000
Debentures	1,365,000
Deferred income taxes	77,000
	14,924,000
	$ 3,675,000

3. Accounts receivable

Accounts receivable consist of amounts due from:

	1974	1973
Sales of housing units and land	$ 6,184,000	$ 7,517,000
Loans to directors, officers and employees under share purchase program *(Note 15)*—		
Due by December 15, 1982	390,000	390,000
Due by December 31, 1983	203,000	—
Other (includes $1,359,000 due from joint ventures in 1973)	1,580,000	2,528,000
	$ 8,357,000	$10,435,000

4. Mortgages and agreements receivable

The mortgages and agreements for sale receivable yield interest at a weighted average rate of 9.4% per annum. Principal payments are due on these agreements as follows:

Year ending—	
October 31, 1975	$ 1,171,000
October 31, 1976	1,659,000
October 31, 1977	592,000
October 31, 1978	83,000
October 31, 1979 and subsequent	736,000
	$ 4,241,000

5. Housing units

Housing units, including condominiums, are recorded at the lower of cost and net realizable value and consist of the following:

	1974		1973	
	Units	Amount	Units	Amount
Units under development	1,418	$18,270,000	519	$ 6,464,000
Completed units	418	11,998,000	294	7,788,000
Land for future housing development	—	4,702,000	—	1,128,000
	1,836	$34,970,000	813	$15,380,000

Of the units under development at October 31, 1974, 751 were under construction at that date and the remainder were in the planning stage.

At October 31, 1974, 220 of the above completed units had been offered for rental by the Company to tenants for periods of up to one year. By December 13, 1974, 145 of these units had been rented. The rental income and operating expenses, including interest, relating to these units have been reflected in the consolidated statement of income.

6. Land

Included within this category is land that is currently under development for resale as building lots and the Company's land bank which is held for future development. Other land which forms part of building projects is included within the cost of housing units and income properties.

Land is recorded at the lower of cost and net realizable value and consists of the following:

	1974	1973
Purchase price	$42,978,000	$15,962,000
Development costs	4,207,000	1,387,000
Carrying costs	3,805,000	1,222,000
Options and deposits	697,000	491,000
	$51,687,000	$19,062,000
Acreage (including 3,070 acres under option in 1974 and 2,414 acres in 1973)	8,969	6,010
Carrying costs consist of:		
Balance, beginning of year	$ 1,222,000	$ 417,000
Acquired with purchase of Paragon Properties Limited	444,000	—
Capitalized during the year	2,838,000	970,000
	4,504,000	1,387,000
Transferred to cost of sales and other assets	699,000	165,000
Balance, end of year	$ 3,805,000	$ 1,222,000

7. Investments

Investments consist of the following:

	1974	1973
Investments in and advances to—		
Unincorporated joint ventures and affiliates, on equity basis	$ 1,629,000	$ 1,772,000
Unconsolidated subsidiary, at cost	—	4,921,000
	$ 1,629,000	$ 6,693,000

During the year, the Company's investment in its previously wholly-owned subsidiary, Harbour Park Developments Ltd., was sold at cost to the City of Vancouver. Accordingly, it was not consolidated as at October 31, 1973.

8. Income properties

These assets, which include related land, are recorded at cost, less accumulated depreciation, and consist of the following:

	1974	1973
Income producing properties, less accumulated depreciation of $275,000 (1973—$158,000)	$52,831,000	$ 8,655,000
Income properties under development	28,059,000	18,737,000
	$80,890,000	$27,392,000

9. Other assets

Other assets consist of:

	1974	1973
Equipment, at cost less accumulated depreciation of $261,000 (1973—$289,000)	$ 468,000	$ 401,000
Deferred charges, less accumulated amortization of $33,000 (1973—$81,000)	549,000	217,000
Inventory of construction materials, at cost	1,505,000	—
	$ 2,522,000	$ 618,000

Deferred charges in 1974 include $531,000 relating to unamortized discount on, and costs of issue of, Series C debentures *(Note 13)*. Deferred charges in 1973 included $182,000, relating to unamortized costs of Daon Series A debentures which were fully redeemed or converted into shares during 1974 *(Note 13)*; this previously unamortized balance was applied during 1974 as follows:

Included within interest expense for the year (relating to debentures redeemed)	$ 123,000
Charged against capital stock (relating to debentures converted into shares)	59,000
	$ 182,000

10. Bank loans

The Company's bank loans are secured by a general assignment of receivables, assignments of specific agreements for sale receivable, a floating charge on the assets of the Company and a fixed charge on certain properties.

11. Accounts payable

Accounts payable consist of the following:

	1974	1973
Trade payables and accrued liabilities	$ 9,197,000	$ 6,576,000
Contractors' holdbacks payable	3,942,000	2,973,000
Deferred income and deposits	876,000	306,000
Costs to complete or service properties sold	3,473,000	2,457,000
	$17,488,000	$12,312,000

A substantial portion of total accounts payable at October 31, 1974, relates to current expenditures on housing units, land and income properties under development. The Company holds mortgage commitments to provide substantially all the funds required for the settlement of such accounts.

Notes to consolidated financial statements (continued)

12. Mortgages and agreements payable

Mortgages and agreements payable are secured by the following assets:

	1974			1973
	Interim Financing	Long-Term Debt	Total	Total
Housing units	$22,532,000	$ 767,000	$ 23,299,000	$11,424,000
Land	9,055,000	38,239,000	47,294,000	16,375,000
Income producing properties	6,178,000	35,292,000	41,470,000	6,407,000
Income properties under development	18,545,000	555,000	19,100,000	14,541,000
Investment in unconsolidated subsidiary *(Note 7)*	—	—	—	4,500,000
	$56,310,000	$74,853,000	$131,163,000	$53,247,000

The long-term debt bears interest at a weighted average rate of 9.4% per annum, with principal repayments due as follows:

Year ending—	
October 31, 1975	$12,641,000
October 31, 1976	8,584,000
October 31, 1977	5,626,000
October 31, 1978	3,806,000
October 31, 1979 to 2009	44,196,000
	$74,853,000

Included in mortgages and agreements payable is $1,247,000 payable in United States currency. The rate of exchange at October 31, 1974 approximated par.

13. Debentures payable

Debentures payable consist of:

	Daon Series A	Daon Series C	Paragon Series A	Total
Balance, October 31, 1973 and 1972	$ 4,200,000	$ —	$ —	$ 4,200,000
Debentures issued, April 15, 1974	—	10,000,000	—	10,000,000
Acquired with purchase, February 1, 1974 *(Note 2)*	—	—	1,365,000	1,365,000
Debentures purchased and redeemed during the year	(2,718,000)	(45,000)	(90,000)	(2,853,000)
Debentures converted into common shares *(Note 15)*	(1,482,000)	—	—	(1,482,000)
Balance, October 31, 1974	$ —	$ 9,955,000	$ 1,275,000	$11,230,000

Daon Series A—

During the year, the Company called for redemption the outstanding balance of its Series A convertible debentures. Debentures totalling $1,482,000 were converted into 177,840 common shares and the remainder were redeemed for cash.

Daon Series C—

On April 15, 1974, the Company issued $10,000,000, 9-3/4% sinking fund debentures, Series C, to mature April 15, 1994, retractable at the holders' option on April 15, 1984. The total cash received by the Company was $9,575,000, after deduction of discounts of $425,000.

The debentures are redeemable for other than sinking fund purposes at the Company's option in whole or in part at any time after April 15, 1984, at an initial price of 104.5% of principal, reducing by 0.5% of principal each year after April 15, 1984.

The debentures are secured by a floating charge on the assets of the Company. The Company is required to establish a sinking fund in such amounts as shall be sufficient to retire on April 15 in each of the following years the principal amounts of debentures set out below:

1975 to 1977	$300,000 per annum
1978 to 1980	$400,000 per annum
1981 to 1984	$500,000 per annum
1985 to 1993	7% of the total of Series C debentures outstanding on April 16, 1984.

The Company is permitted to purchase debentures on the open market for cancellation. To October 31, 1974, the Company has purchased for cancellation, debentures totalling $45,000 and these will be applied in partial satisfaction of the 1975 sinking fund requirement.

Under the terms of the Trust Indenture securing the Series C debentures, the Company may not pay dividends if, after paying such dividends, the shareholders' equity as defined therein, would be reduced below prescribed levels. It is management's opinion that the aforementioned restriction will not affect the Company's dividend policy.

Paragon Series A—

The 8% Series A debentures of Paragon Properties Limited mature on February 15, 1979, and are redeemable otherwise than out of sinking fund monies at Paragon's option on thirty days' notice at 102% of principal if redeemed on or before February 15, 1977, and at 100% of principal if redeemed thereafter and prior to maturity.

The debentures are secured by a floating charge on Paragon's assets.

Paragon is required to establish a sinking fund in such amounts as shall be sufficient to retire, on February 15 in each of the following years, the principal amounts of the Series A debentures set out below:

1975	$195,000
1976	$210,000
1977	$225,000
1978	$245,000

Paragon is permitted to purchase debentures on the open market for cancellation. To October 31, 1974, Paragon has purchased for cancellation debentures totalling $90,000, and these will be applied in partial satisfaction of the 1975 sinking fund requirement.

14. Contingent liabilities and commitments

The Company and its subsidiaries are contingently liable for the total obligations of certain joint ventures amounting to $8,598,000. However, in each case, the total assets of the joint ventures are available and adequate to satisfy such obligations.

Paragon Properties Limited has guaranteed certain payments on two first mortgages payable by others in the aggregate amount of $3,329,000. In the event that Paragon is required to honour such guarantees, it has a right to obtain an assignment of the underlying securities held by the mortgagees.

The Company and its subsidiaries have entered into lease agreements for terms of up to 97 years. The annual rentals amount to $778,000 until 1976, when the first of these leases, with annual rentals of $448,000, is due to terminate.

15. Capital stock

Authorized—3,000,000 shares without par value.

Changes in capital stock outstanding were:

	1974		1973	
	Number of Shares	Amount	Number of Shares	Amount
Balance, beginning of year	1,277,380	$ 3,131,000	1,204,360	$ 2,676,000
Stock issued during the year—				
Under employee stock purchase program	30,000	203,000	60,000	390,000
On exercise of employee stock options	13,970	71,000	13,020	65,000
On conversion of $1,482,000 Series A debentures payable *(Notes 9 and 13)*	177,840	1,423,000	—	—
Balance, end of year	1,499,190	$ 4,828,000	1,277,380	$ 3,131,000

Stock issued under the employee stock purchase program was issued at the last sale price of the Company's stock on the Toronto Stock Exchange at date of issue. Interest-free funds for the stock purchases were loaned to the officers and employees concerned by D.D.L. Employee Investments Ltd., a wholly-owned subsidiary. The loans are included in accounts receivable and are secured by the stock issued, which is assigned to and held by an appointed trustee *(Note 3).*

The Company has a stock option plan under which options have been granted to certain directors, officers and employees of the Company at prevailing market prices of between $5.00 and $7.875 per share. At October 31, 1974, options to purchase 77,670 shares were outstanding, of which 42,000 were issued during the current year. The options can be exercised on various dates up to and including September 9, 1979. If all options are exercised before they expire, the Company will receive $486,000.

16. Real estate sales

Real estate sales and cost of real estate sales are composed of the following:

	1974	1973
Sales—		
Housing units	$24,706,000	$26,790,000
Land	19,101,000	12,620,000
Income properties	15,163,000	1,575,000
	$58,970,000	$40,985,000
Cost of sales—		
Housing units	$20,070,000	$24,652,000
Land	15,048,000	9,509,000
Income properties	14,177,000	1,241,000
	$49,295,000	$35,402,000

17. Interest expense

Interest expense consists of the following:

	1974	1973
Interest on long-term debt (including amortization of debenture discounts and other financing expenses)	$ 2,520,000	$ 752,000
Bank and other interest	794,000	437,000
Premium on redemption of Daon Series A debentures *(Note 9)*	123,000	—
	3,437,000	1,189,000
Less—Portion of interest on general corporate borrowings allocated to housing units, land and income properties	676,000	142,000
	$ 2,761,000	$ 1,047,000

18. Earnings and cash flow per share

Earnings and cash flow per share have been calculated on the basis of the weighted average number of shares outstanding during the year. Cash flow comprises net income plus items deducted in arriving at net income which do not involve the outlay of cash.

The fully diluted earnings per share are calculated on income that would have been reported had all outstanding stock options been exercised.

19. Remuneration of directors and senior officers

The aggregate direct remuneration paid or payable by the Company and its subsidiaries to the directors and senior officers of the Company for the year ended October 31, 1974 amounted to $599,000 (1973—$400,000).

20. Change of name

During the current year, Dawson Developments Limited changed its name to Daon Development Corporation

21. Reclassification of 1973 financial statements

The comparative 1973 financial statements have been reclassified to conform with the grouping used in the 1974 financial statements.

Major properties and land holdings

RESIDENTIAL INCOME PROPERTIES

Alberta

HIGHLAND ESTATES Calgary	Townhouses	140 units	Completed in 1971
HAYS FARM I & II Calgary	Garden apartments	228 units	Completed in 1973; 50% interest
HAYS FARM III Calgary	Garden apartments	112 units	Completed in 1974
VILLAGE GREEN Calgary	Apartments, townhouses	115 units	Completed in 1970; 50% interest
THE ATHABASCAN Edmonton	High rise apartment	118 units	Acquired in 1974
RIVERBEND ESTATES Edmonton	High rise apartment	111 units	Completed in 1974
CHATEAU ESTATES Calgary	Mobile home park	286 units	Completed in 1972
AMYLORNE Calgary	Mobile home park and motel	171 units	Completed in 1969
EVERGREEN Edmonton	Mobile home park	257 units	Completed in 1974; 50% interest

British Columbia

CLUB MONTECITO Burnaby	High rise apartment	252 units	Completed in 1971; leasehold interest
WOODCROFT PLACE PHASE I North Vancouver	High rise apartment	507 units	Construction and rental 1973-4
CENTURION ESTATES Burnaby	High rise apartment	381 units	Construction and rental 1974-5

COMMERCIAL INCOME PROPERTIES

Alberta

DAON BUILDING Calgary	Office building	22 storeys; 170,000 sq. ft	Completed in 1973
FINANCIAL BUILDING Edmonton	Office building	11 storeys; 127,000 sq. ft	Acquired 1974; Expansion 1974-5
VILLAGE SQUARE Calgary	Shopping centre	100,000 sq. ft.	Construction in 1975
ALBERTA PLACE Calgary	Office building	10 storeys; 107,000 sq. ft	Completed in 1974
NORWESTER INDUSTRIAL ESTATES Edmonton	4 warehouses	462,000 sq. ft	Completion 1974-5

British Columbia

DAON BUILDING Vancouver	Office building	21 storeys; 240,000 sq. ft	Completed in 1974
1166 WEST PENDER Vancouver	Office building	15 storeys; 140,000 sq. ft	Completion in 1975
RICHMOND INDUSTRIAL PARK Richmond	Warehouse/office complex	328,000 sq. ft	Completion in 1975; 50% interest
LANGLEY MALL Langley	Shopping centre	134,000 sq. ft.	Completed in 1974

HOUSING UNITS FOR RESALE

British Columbia

WOODCROFT PLACE PHASE II North Vancouver	High rise condominium	325 units	Completion and sale in 1975-6
GREENTREE VILLAGE Burnaby	Townhouse, condominium and patio homes	237 units	Under construction; sales programme 1974-5
HUNTINGTON PLACE Vancouver	High rise condominium	122 units	Completion and sale in 1975
ALDERWOOD Surrey	Cluster townhouses	212 units	Phase I (32 units) under construction; completion and sale in 1975
LAURELWOOD Richmond	Townhouse, high rise condominium	328 units	Construction in 1974-5; Provincial Gov't programme
SUN MEADOWS Surrey	Townhouses	225 units	Construction and sale in 1975-6
THE STATESMAN New Westminster	High rise condominium	88 units	Construction completed in 1974; rental or sale in 1974-1975

LAND

Alberta

NORWESTER INDUSTRIAL ESTATES Edmonton	Acquired 1973	116 acres	Light industrial development 1974-8
NORTHWEST EDMONTON LAND ASSEMBLY Edmonton	Acquired 1974	518 acres	Light industrial development 1975-9
THE PROPERTIES Calgary	Acquired 1971-3	1,057 acres, 4,300 lots	Residential and related service; sales programme 1974-8
TRANS CANADA HIGHWAY & BARLOW TRAIL Calgary	Acquired 1973-4	426 acres	Warehousing, commercial and regional shopping centre development 1975-80
CHRISTNER Calgary	Acquired 1973	614 acres	Residential development; 50% interest
TRUCENA Edmonton	Acquired 1972	154 acres	Industrial: 50% interest
CARMEN ELLIS Calgary	Acquired 1973	226 acres	Residential or resale

British Columbia

DILWORTH MOUNTAIN Kelowna	Acquired 1973	872 acres	Residential development 1975-80
LANGLEY PHASE II Langley	Acquired 1972	67 acres	Residential development 1975-6
FERNWOOD VILLAGE Coquitlam	Acquired 1974	37 acres	Residential development 1975-6
BURRARD, DRAKE, HORNBY, PACIFIC Vancouver	Acquired 1974	2.7 acres	Commercial development

DAON

Daon Development Corporation

Head Office

The Daon Building
1050 West Pender Street
Vancouver, B.C. V6E 3S8

Calgary Office

The Daon Building
1860 - 444 5th Avenue S.W.
Calgary, Alberta T2P 2T8

Edmonton Office

1280 - 10055 106th Street
Edmonton, Alberta T5J 2Y2

Auditors

Messrs. Arthur Andersen & Co.
Chartered Accountants
1055 West Hastings Street
Vancouver, B.C.

Transfer Agent and Registrar

National Trust Company, Limited

Trustee for Debentures

National Trust Company, Limited

Stock Exchange Listings

Vancouver Stock Exchange
Toronto Stock Exchange
Montreal Stock Exchange

Directors

William J. Corcoran, *Executive Vice-President*
McLeod Young Weir & Company, Limited, Toronto

Norman E. Cressey, *Vice-President*
Daon Development Corporation, Vancouver

Graham R. Dawson, *President*
Dawson Construction Limited, Vancouver

Roderick M. Hungerford, *President*
Flex-Lox Industries Ltd., Vancouver

William B. Laurie, *Executive Vice-President*
Dawson Construction Limited, Vancouver

George B. McKeen, *President*
McKeen & Wilson Ltd., Vancouver

John W. Poole, *President*
Daon Development Corporation, Vancouver

Robert Thomson, *Vice-President & Director*
Yale Properties Ltd., Montreal

Officers

Graham R. Dawson, *Chairman of the Board*

John W. Poole, *President and Chief Executive Officer*

C. Stanley Allington, *Vice-President, Land Division (B.C.)*

Norman E. Cressey, *Vice-President, Operations*

Basil V. Franey, *Vice-President, Administration*

William H. Levine, *Vice-President, Finance & Secretary*

Russell A. Nunn, *Vice-President & Chief Operating Officer, Alberta*

Bernard Springman, *Vice-President, Residential Sales*

Kamal G. Rizkalla, *Assistant Vice-President*

Mac D. Campbell, *Treasurer*

Raymond J. Langrish, *Comptroller*

Green Tree Village, Burnaby. Phase I comprising 103 units has been sold. A further 237 units will be ready for marketing in 1975.

Huntington Place, close to Vancouver's Stanley Park. 21 storey luxury condominium. Marketing will commence early 1975.

Langley Mall, a 134,000 square foot shopping centre was opened and fully leased by October 1974.

Back cover

Woodcroft Place, North Vancouver. Two buildings are completed and rented. Two more buildings will be completed in 1975. When all six buildings are finished, the project will comprise 1,227 units which may be marketed as condominiums.

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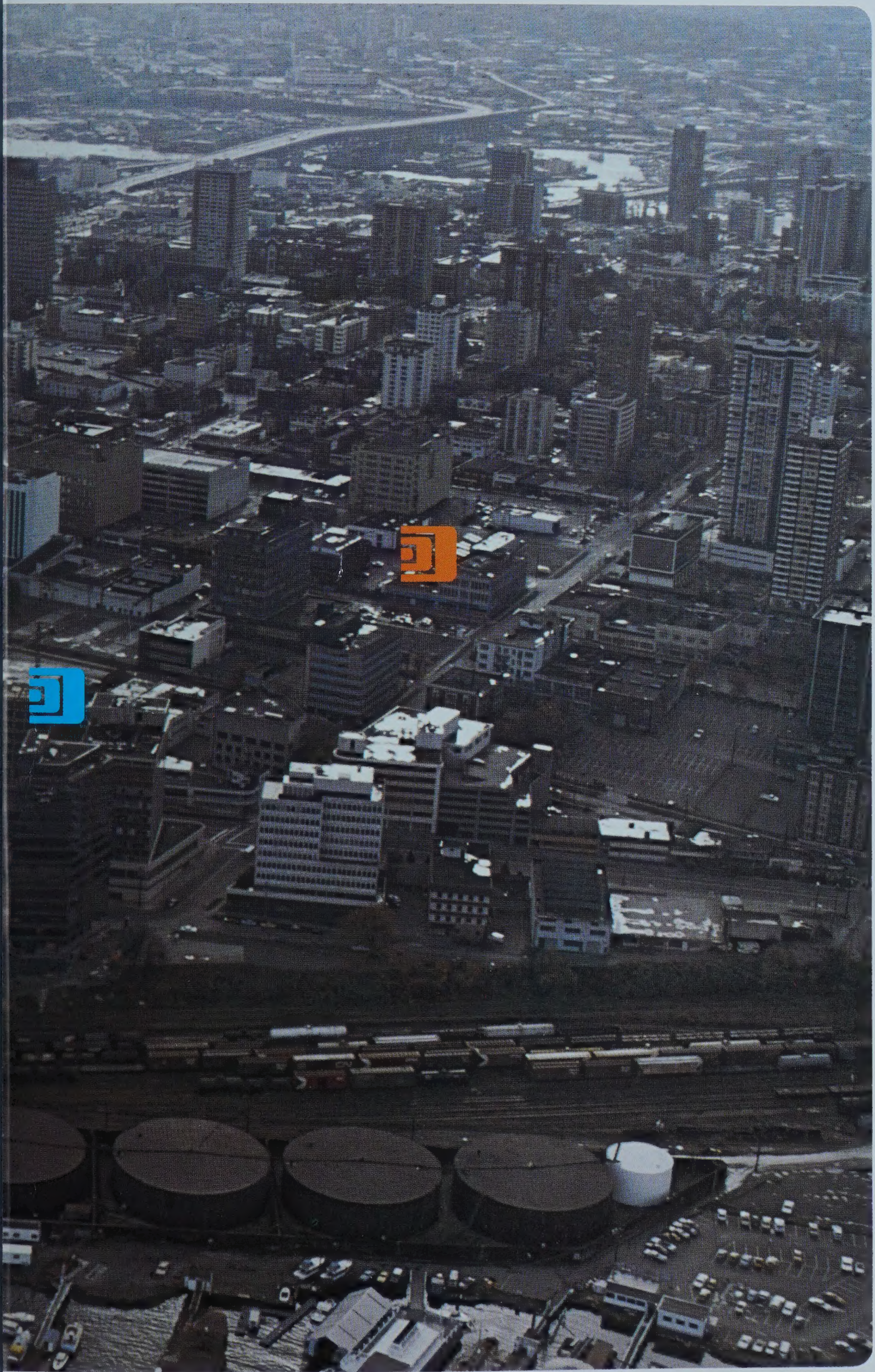
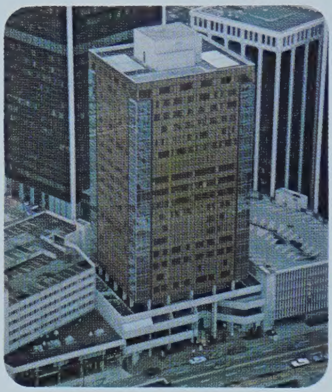
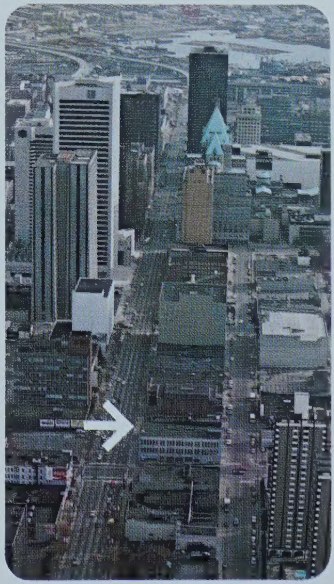




The Daon Building, Vancouver.
240,000 square feet.
95% rented.

1166 West Pender Street, Vancouver.
A 140,000 square foot office tower, scheduled for completion in 1975.



West Georgia and Bute Street, Vancouver. Development of a 200,000 square foot office tower is scheduled to begin during 1975.

DAON DEVELOPMENT CORPORATION
VANCOUVER, CALGARY, EDMONTON